U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Wins Committee Approval of Tax Cut for Manufacturers, Farmers, Significant International Tax Reforms

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today won committee approval of his legislation to cut taxes for U.S. manufacturers, sole proprietors, partnerships, farmers and small business owners who create jobs, and to reform and simplify international taxes for U.S. companies operating overseas. The legislation is meant to head off trade sanctions from Europe that likely would force U.S. manufacturers and agricultural producers to slice jobs.

"Inaction probably would cost a lot of American workers their jobs," Grassley said. "Obviously we can't let that happen. This bill is a good solution that not only prevents Europe's sanctions, but also gives a real shot in the arm to U.S. manufacturers and agricultural producers, at home and abroad."

Grassley and Sen. Max Baucus, ranking member of the Finance Committee, won bipartisan committee approval of their *Jumpstart Our Business Strength (JOBS) Act*, which replaces a tax regime that is very important to U.S. exporters, including farmers.

Grassley said the Foreign Sales Corporation/Extraterritorial Income Tax regime, in effect, lowers the rate of income tax imposed on goods that are manufactured in the United States and exported for sale in foreign markets. The purpose of FSC-ETI is to allow U.S. manufacturers to compete with European manufacturers who do not pay value-added taxes (VAT) on their exports. The World Trade Organization has ruled that FSC-ETI is an impermissible export subsidy, and has authorized the EU to impose up to $4 billion a year in sanctions on U.S. exports. According to media reports, the sanctions would be the largest in the WTO's eight-year history.

Grassley said absorbing the sanctions could have a devastating effect on the U.S. economy, especially agriculture. Some U.S. exporters would suffer greatly if $4 billion in sanctions were imposed on their products. Many likely would not survive and would cut a significant number of jobs, Grassley said. With its strong agricultural base, Iowa exports more products than most states and has $1.6 billion of FSC-ETI-benefited exports each year, according to a PricewaterhouseCoopers study.

The legislation also includes significant reforms to international tax rules, which Grassley said seriously undermine America's ability to compete in the global marketplace. Grassley said his bill includes many international tax reforms that directly benefit manufacturers, such as cleaning up problems that cause foreign earnings to be double-taxed, and reforming Subpart F to ensure that active business operations are taxed when the money is brought home, and not when the companies are locked in battle with foreign competitors who don't pay taxes.

Grassley said the JOBS Act offers a permanent solution to the FSC/ETI problem, consistent with international trade rules under the World Trade Organization, and reliable, sustained tax relief for domestic manufacturers.

"U.S. businesses are under more pressure than ever in an era of expanding global markets," Grassley said. "This bill will increase the ability of U.S.-based operations to compete with foreign competition abroad and on U.S. soil. And it'll increase the competitiveness of U.S. operations located outside the United States. All of that means more job opportunities for American workers."

For more details, please see finance.senate.gov under "legislation."

Grassley's opening statement at today's hearing follows.

Opening Statement of Chairman Grassley
Mark-up of the JOBS Act
Oct. 1, 2003

A little over a year ago, the business community in America faced a terrible choice – a choice that would increase taxes on some businesses and shift those taxes to other businesses. At the time, many people called this a "false choice." Today, we are here to give America a "winning choice." It is a choice that benefits all, and does so in a revenue neutral manner. Our bill contains a solid balance of domestic tax relief and international tax reforms to strengthen American business. Today, we will vote on a measure to revive manufacturing in America. We will reduce the tax rate for U.S. manufacturing by 3 percentage points. We start phasing in those cuts next year. These cuts are for all who manufacture in America, regardless of their size. Sole proprietors, partnerships, and corporations of all size, large and small, domestic and international, and even foreign-owned companies that make things here. These benefits also extend to farmers, miners, lumberjacks, and anyone else who manufactures, grows, or extracts products in the United States. Over the past several years, we have lost millions of manufacturing jobs. Working families live in financial fear. We owe a secure future to these hard working men and women. For them to have a secure future, their employers must be able to compete and thrive, both at home and abroad. Their employers cannot thrive if they are burdened with excessive tax rates at home, and tax barriers abroad.

Flaws in our international tax rules seriously undermine America's ability to compete in the global marketplace. In April of 2002, Sen. Baucus and I introduced a bill to stop corporate expatriations. When we introduced that bill, I said that the rising tide of corporate expatriations demonstrates that our international tax rules are deeply flawed. I pledged that U.S. companies who refused to expatriate should not be left to struggle with the competitive disadvantages of our international tax rules. This is an unjust result for companies that chose to remain in the United States. Today, we are going to deliver on that pledge. We have selected many international tax reforms that directly benefit manufacturers. We clean up problems that cause foreign earnings to be double taxed. We reform Subpart F to ensure that active business operations are taxed when the money is brought home, and not when the companies are locked in battle with foreign competitors who don't pay taxes. International tax reform is long overdue. Our current system is based on a framework enacted during President Kennedy's administration.

In an era of expanding global markets, falling trade barriers, and technological innovations that melt away traditional notions of national borders, it is critical that our international tax laws keep pace with new business realities. I have also included the Homeland Reinvestment Act, sponsored by Sen. Smith and Sen. Ensign. This bill encourages companies to bring their foreign earnings back to the United States, by providing a temporary reduced rate of tax. I promised Sen. Ensign that I would include the Act in a mark-up, and I am delivering on that promise today. Perhaps the most important news is that we repeal FSC-ETI. You may have seen recent news reports that the EU intends to impose sanctions if we do not repeal FSC-ETI this year.

This is a very serious threat to American workers, manufacturers, and farmers. The WTO has ruled that FSC-ETI is an illegal export subsidy, and has authorized the EU to impose up to $4 billion a year in sanctions on U.S. exports. We all know that if sanctions come, they could fall on farm products and manufactured goods. That could cost more jobs and more losses. Those sanctions could start in January if we do not act this year. Our approach to FSC-ETI repeal is very straightforward. We take the proceeds from FSC-ETI repeal and put it back to the manufacturing industries that it came from. Every dime of FSC-ETI repeal goes back into manufacturing. We provide a soft landing for current FSC-ETI users by providing a 3-year transition that, each year, gives them up to 80% of last year's ETI benefits. Then we add international reforms that will help American manufacturing and farming, and provide domestic tax relief for U.S. companies that may be in a down cycle. And the mark does all of this in a revenue neutral manner. Our mark is a balanced solution that not only prevents Europe's sanctions, but also gives a real shot in the arm to U.S. farms and businesses. I ask for your support of our efforts here today.

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